THE UNIVERSITY OF CHICAGO

ROUND TABLE

BIGGER AND BETTER TAXES?

A Radio Discussion by * A. G. HART
NEIL JACOBY *and* HENRY SIMONS

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Around the Round Table . . . .

NEIL H. JACOBY, secretary of the University of Chicago and professor of finance in the School of Business at the University of Chicago, did his undergraduate work at the University of Saskatchewan and for his graduate work came to the University of Chicago where he was granted his M.A. and Ph.D. degrees. Under Governor Horner he served as supervisor of the Legal and Research Division of the Department of Finance of the State of Illinois, where he worked especially on the sales tax. Mr. Jacoby has had experience in private business as manager of the research department of the investment banking and counsel firm of Lawrence Stern and Company. He served as chairman of the Illinois Emergency Relief Commission during 1939 and 1940. Dr. Jacoby has written many articles and reports, and he has authored *Retail Sales Taxation* (1938) and *Inter-government Fiscal Relations in Illinois* (with Leland and others) (1938) and is coauthor of *Term Lending to Business* (1942) and *Accounts Receivable Financing* (1942).

ALBERT GAILORD HART, professor of economics at Iowa State College, did his undergraduate college work at Harvard University, where he received his B.A. degree. He did his graduate work and received his Ph.D. from the University of Chicago where he also served as an instructor in the department of economics. Since 1939 Professor Hart has been associated with Iowa State College. He is a member of the executive committee of the Conference on Research in National Income and Wealth and a member of the editorial board of the *American Economic Review*. Professor Hart is the author of *Debts and Recovery* (1938), *Anticipation, Uncertainty, and Dynamic Planning* (1940) and *Paying for Defense* (with E. G. Allen) (1941). He is also a frequent contributor to economic and political journals.

HENRY C. SIMONS, associate professor of economics at the University of Chicago, received his A.B. degree from the University of Michigan and has done graduate work in economics at that university, the University of Chicago, Columbia University, and in Berlin, Germany. Before coming to the University of Chicago, he was a member of the economics department of the University of Iowa. Professor Simons is a regular contributor to numerous professional journals and magazines and is the author of *Personal Income Taxation* (1938) and *A Positive Program for Laissez Faire* (1934).

BIGGER AND BETTER TAXES?

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MR. JACOBY: This week, as forty-odd million Americans are sharpening up their pencils, filling in little spaces on income-tax returns, and sending checks to Uncle Sam, there are several tax questions that are running through the heads of many of them. One of them, I think, is this: Aren't taxes high enough now?

MR. SIMONS: I don't think that they're nearly high enough. Indeed, we're not covering more than a third of the cost of the war with our taxes at the present time.

MR. JACOBY: There's another question: How much more money, tax money, does the government need anyhow?

MR. HART: I'd say that practically everybody will be better off if taxes figure out about double what they are now.

MR. JACOBY: Sounds bad. Then there's this third question: Isn't a sales tax the best way to get the money?

MR. SIMONS: I don't think that the sales tax has much merit in the present situation. It won't yield much revenue, and it's not a good tax.

MR. JACOBY: I believe that most economists have objected to the sales tax on the grounds that it is unfair.

MR. HART: I think that we'd all agree to that here, but the point Simons was making, and I think that he's right, is that the sales tax isn't practical.

MR. JACOBY: There's a fourth question: How about the Ruml Plan? Is that a good idea?[1]

MR. SIMONS: I am wholly opposed to the Ruml Plan in so far as it involves any forgiving of 1942 taxes.

MR. HART: What's your answer, Jacoby?

MR. JACOBY: My feeling is that, all things considered, the Ruml Plan is the most expedient and fairest way of getting on a basis of current tax payments.

MR. HART: I've got an answer, too, and that makes three. I wish that the Ruml Plan would get out of the way and let us get the business done. I think it's a colossal red herring.

MR. JACOBY: Gentlemen, we've given a number of pat and opinionated answers to some very difficult and important questions. Now, we ought to get behind those questions and try to explain why we've arrived at those conclusions.

Simons, what's the tax and the financial picture of this country as you see it now?

MR. SIMONS: As everyone knows, since the President's budget message, we're going to be spending over a hundred billion dollars

[1] The Ruml Plan, sponsored by Mr. Beardsley Ruml, proposes to put all payers of income tax on a current basis by skipping a year's tax. Thus, the tax liability for the year 1942 would be forgiven by the government. The payments which have been made during this year—1943—would thus be treated as current payments for this year's tax liability. Of course, 1943 income will not ordinarily be the same as 1942 income, so when March, 1944, comes around, each taxpayer will file a return for 1943, showing what his actual 1943 income was. If it was more than the amount his payments covered, he will then pay the difference in tax; if if was in fact less, he will be entitled to a refund. His return of 1943 income will also be treated as a tentative return for 1944, which will determine his advance or current payments of 1944 tax liability.

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during the year beginning next July 1. That amounts to more than ten thousand dollars per man, in a ten-million-man army.[2]

On the other hand, we shall be collecting, with present taxes, thirty to thirty-five billions in that year beginning July 1. That leaves perhaps seventy billion to be financed by borrowing. Out of that seventy billion, at least half must be borrowed from the banks.

MR. JACOBY: Wouldn't you agree that ideally we ought not to borrow any of the seventy billions from the banks but to borrow it all from the public, if we could, on the ground that every dollar borrowed from the public is likely to cut out a dollar of spending?

MR. HART: If I can jump in, it seems to me that the object of the game is to get the money that people were otherwise going to spend. The trouble with borrowing from the banks is that, when the government borrows money from the banks, that doesn't force anybody to take a tuck in his spending. Everybody has just as much money available to spend as he had before.

MR. SIMONS: I think that we ought to look at this in terms of the makeup of the income figures for the coming fiscal year. Hart, could you give us some summaries on that?

MR. HART: Roughly, it is like this. The citizens are going to have, in salaries and wages and interest and dividends and farm profits and other forms of income, about a hundred and forty billion dollars. Now, the supplies of consumption goods in sight are going to be worth something like seventy billion dollars.

MR. JACOBY: In short, there'll be about two dollars coming into every person's pocket for every dollar's worth of goods for purchase at current price levels?

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[2] The budget message estimated that the government will spend 109 billion dollars during the fiscal year July 1, 1943, to June 30, 1944. The budget estimates of receipts and expenditures show that, unless additional current revenue is forthcoming, the public debt, both direct and guaranteed, will rise to 135 billions by next July and to 210 billion dollars by July, 1944.

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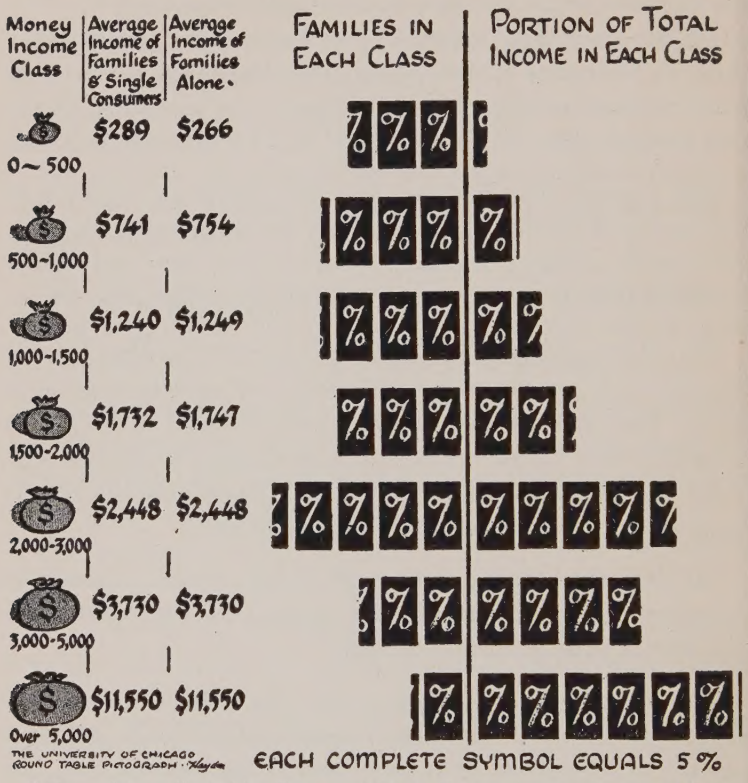
FAMILY INCOME DISTRIBUTION, 1941*



* From data collected by Bureau of Home Economics and Bureau of Labor Statistics. Compiled by A. G. Hart.

MR. HART: At current price levels, yes. That is, we're hoping and praying that we will be able to stop inflation in its tracks and hold present price levels.[3] Actually, the danger is, of course, that the public will spend a lot more than seventy billion on those goods and pay a lot more than present prices.

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[3] For a further discussion of inflation see John M. Clark, *How To Check Inflation* ("Public Affairs Pamphlets," No. 64 [New York: Public Affairs Committee, 1942]).

MR. SIMONS: Yes. If people end up with much more than seventy billions to spend, a lot of them are going to spend a lot of time in line, trying to get commodities, and the black markets and commodity bootlegging are certainly going to thrive.

MR. HART: We've made a start on that already.

MR. JACOBY: Hart, to pursue your argument, we have the hundred and forty billions coming in, prospectively. There are seventy billion of goods to buy. What happens to the other seventy?

MR. HART: About twenty billion of it is earmarked for the taxes now in sight, and then there is about fifty billion left. If inflation control is going to work on only the present taxes, then we have to look to the public to save that fifty billion dollars. It seems to me that there is every likelihood that they won't save anything like that much. They certainly don't need to. I don't think you can make out a picture that civilians really need to save more than twenty billions. Before 1941 we never saved more than seven and a half billion in any one year in this country.

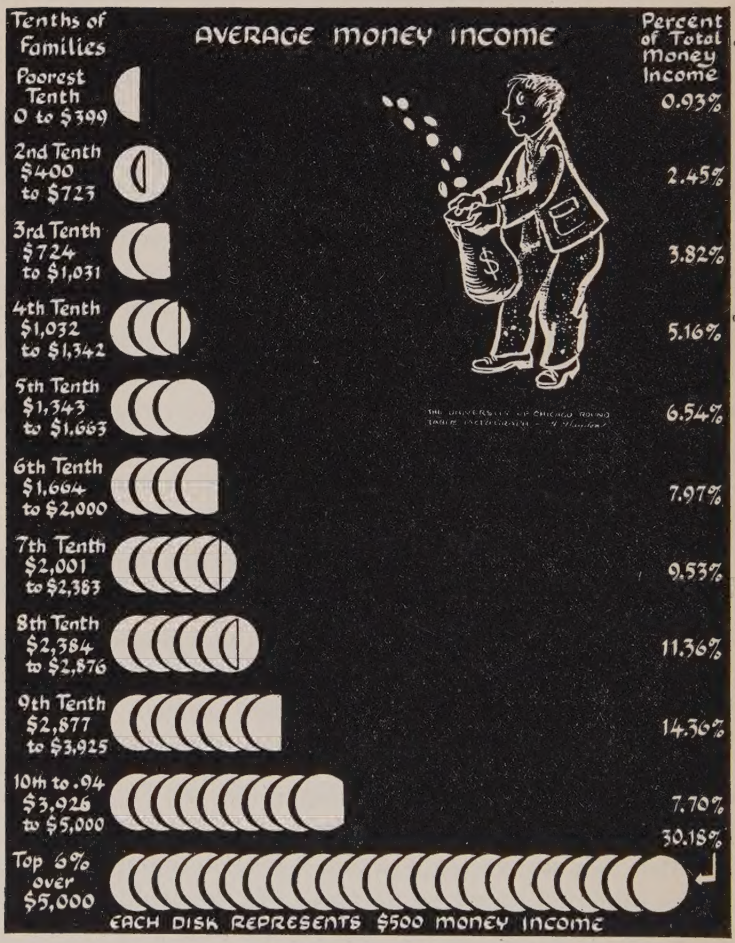
MR. JACOBY: It certainly looks as though the Treasury proposals for increasing taxes by sixteen billions are grossly inadequate.

MR. SIMONS: I should say that they are grossly inadequate, but it's the old story with the Treasury as it has been with the House Ways and Means Committee—too little and too late.

MR. HART: By the way, we might stack this up against what the Treasury told us at the beginning of the war. During World War I we covered about a third of expenditures out of tax revenue. This time they said we ought to turn it around—instead of taxing for one-third and borrowing for two-thirds, we ought to tax for two-thirds. What we're actually doing is just what we did in World War I, taxing for one-third.

MR. JACOBY: I wonder if the people realize on how much grander a scale this war is being fought than previous wars in our history? Do we fully appreciate the fact that the entire cost of the Civil War

AVERAGE MONEY INCOMES OF FAMILIES, 1941*



* The total national income for 1941 was about 95 billion dollars. Therefore, the 0.93 per cent represents almost 1 billion dollars, while the 30.18 per cent equals almost 30 billion.

is being spent, or will be spent by July 1, every ten days? Have we thought that the entire cost to this country of World War I will be spent every six months?

MR, HART: You might even say, in terms of economic strain, that World War I never took us beyond the stage that we were at about last summer. The most intense strain on the United States in 1918 was roughly the kind of strain we had last summer. We're way beyond that already and going further.

MR. SIMONS: We need to recognize in view of the magnitude of our war effort that we simply haven't gone to war with our tax system at all. We still have something that looks like a pre-war defense period in taxation and not a period of all-out war at all.

MR. JACOBY: And our efforts on the fiscal or financial front look pitiful as compared with those of our Allies. For the last two years Great Britain has covered about half her war budget by taxation. Canada, I believe, has done about the same. But here we are, a country with a much larger income per capita, covering only about 30 per cent of our war budget with taxes.[4]

MR. SIMONS: Yes, I should say that in the fiscal field, regarding taxation, we're still planning and operating on the basis of a week-end war. The military authorities are, I think, at least prepared to face the possibility of a long war. It may not be long, but it would certainly be foolish to plan at a military level for its being over in a very short period.

Likewise, in the field of taxation policy we ought to get to a kind of tax system which will carry us and hold us and prevent inflation in the long view if we do have a long war.

MR. HART: By the way, it's not only a question of preventing inflation during the war but it's a question of coming out with some

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[4] According to the *Federal Reserve Bulletin*, in the present fiscal year (July 1, 1942, to June 30, 1943) all taxes in this country, including state and local taxes, will take 24.5 per cent of the national income. In the same year all taxes in Britain will take 36.8 per cent of the national income.

hope of preventing inflation in the immediate post-war period, which is the time when inflation generally gets bad.

MR. JACOBY: On this University of Chicago ROUND TABLE the question of inflation has been discussed many times, but I don't think it can be said too often that we are paying for the war as we go along.[5] If we don't have the heavier taxes which are unquestionably burdens, we'll have other kinds of burdens—namely, the burden of a rising cost of living, of standing in line for commodities, and of black markets, and various other consequences that will disrupt the war effort.

MR. SIMONS: We must recognize that sound planning for this period will involve increasing the percentage of taxes as compared with spendings and increasing them steadily from one year to another and even from one month to another. On that score we're not getting ahead at all. We started out in 1942 with taxes of about 30 per cent. It looks as though for the immediate future we'd have again taxes of about 30 per cent. Plans for next year don't contemplate anything much better.

MR. JACOBY: To what percentage would you raise them at this stage?

MR. SIMONS: It's a question of time—immediately at least to 50 per cent.

MR. JACOBY: That means how many more billions per annum?

MR. SIMONS: It means about twenty-five to thirty-five billions more per annum now.

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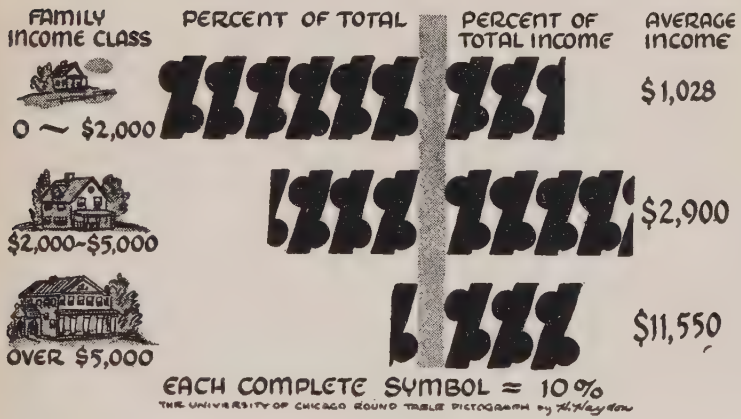
[5] See Albert G. Hart, Neil H. Jacoby, and the Roving Reporter, *Taxes vs. Axis*, a University of Chicago ROUND TABLE transcript, No. 209, broadcast March 15, 1942; Erwin Griswold, Arthur Marget, and Henry Simons, *Your Taxes*, a University of Chicago ROUND TABLE transcript, No. 238, broadcast October 4, 1942; and John M. Clark, Theodore O. Yntema, and the Roving Reporter, *How To Meet the Menace of Inflation*, a University of Chicago ROUND TABLE transcript, No. 200, broadcast January 11, 1942.

HOW THE NATIONAL INCOME IS DIVIDED, 1941*



* *Ibid.*

Mr. Jacoby: That seems to me to state the dimensions of the job, and the next major question that we need to deal with is how to raise the money. I take it from looking at the political polls that we're seeing now that there are three general ideas as to how the twenty-five or thirty billions that we say are necessary can be found. One is by taxes on business. Another alternative is taxes on commodities—sales taxes in general. The third, of course, is our old friend, close friend now, the income tax.

How about the first alternative, Hart, the business tax?

Mr. Hart: It seems to me that the answer for business taxes is that we ought to try to raise about as much revenue as we're raising now. I think that there's room for a change in the rate structure when it comes to taxing corporate profits, but the notion that we can get an enormous amount of extra revenue there and solve our problems won't wash the dish clean. It's a product of wishful thinking, in the labor camp particularly, to believe that corporation profits can somehow carry the load. We're past that point.

Mr. Simons: With regard to corporations we've done a fairly good job already with stabilization. It's about the only place where we have done a good job.

Mr. Jacoby: Yes, dividend payments, for illustration, are down this year about a third from last year's level. In other words, they've been stabilized downward. To follow up Hart's observation, even if we took 100 per cent of all business profits after taxes, we would have less than a third of the money that we have agreed upon that is needed.

Mr. Simons: Yes. I think we should, as far as the total burden is concerned, leave the corporation taxes very much as they are. Hart would probably prefer to see them changed a little bit, with increase in the corporate surtax and reduction in the excess-profits tax rate. But if we leave the aggregate rate where it is, then we can go back to the shareholders for any additional levies, and that is what I think we ought to do.

Mr. Hart: Good enough.

Mr. Jacoby: There is the second possible line of approach. That is, increasing sales taxes—taxes on commodities. We notice here a good deal of political support from business, just as there is support for business taxes by labor groups.

It seems to me that this is equally unpromising—in the first place, because it's totally inadequate to the situation. People who talk about raising taxes by a sales tax are thinking about 5 or 10 per cent rates. A 10 per cent rate might raise five billions.

Mr. Hart: One always has to remember this about a war economy. If we tax sales, we're taxing the kind of thing that the war causes to shrink. Consumer supplies are shrinking, and we're then taxing a shrinking base. That's the joy of income taxes under war conditions. A war expands the base of the income tax, but it shrinks the base of the sales tax.

Mr. Jacoby: If one is setting out to raise thirty billions, as we

are, we need a rate of about 30 to 40 per cent. What might be the consequences of that rate, I wonder, on living costs?

Mr. Simons: I don't think that there is any use in talking about a rate of 40 or 50 per cent. It would provide a lot of revenue, but it's utterly out of the question politically. Even the 10 per cent rate that people do talk about would be a pretty unfair kind of tax for the fellow at the bottom of the income scale. But it seems to me that the even greater objections to the sales-tax device have to do with the problem of administering such a tax.

Mr. Jacoby: As a former state sales-tax administrator I would estimate that about a hundred thousand auditors would be needed to administer a 35 or 40 per cent federal sales tax, and I see no place to get those auditors nowadays except pull them out of the army or out of war plants.

Mr. Hart: I would like to throw in one more point; then let's see if we can't get rid of the sales tax. There's no use trying to take spending power out of people's pockets through a tax if we're going to pour it back into their pockets through wage increases to cover the tax. Even a 10 per cent sales tax threatens to upset the compromises with which we are trying to stabilize wages; a 20 or 30 per cent sales tax would knock them galley-west.

Mr. Simons: If it weren't for other considerations, I'd be a little bit inclined to argue in favor of having a moderate sales tax, just to get it out of the way and to get another one of Hart's red herrings cleaned up. Unfortunately, I don't think that one can make that political concession because of the awful burdens which a general sales tax would impose upon the Bureau of Internal Revenue. If it weren't for that, I'd say, let's have the sales tax and then do something that amounts to something.

Mr. Jacoby: A point to remember is that we have already in the income tax a weapon that we have not used effectively, and, until we have developed that to a point where it raises the maximum

revenue, there's no point in trying to place on the Department of Internal Revenue the tasks of administering a new and unfamiliar tax and throwing away all the machinery when the war is over.

Mr. Hart: In short, we have reached the point now where we have to consider what can be done about the income tax.

Mr. Jacoby: To talk about raising thirty billions more of revenue each year by income taxation seems to me to raise a staggering problem. What would you have to do to rates?

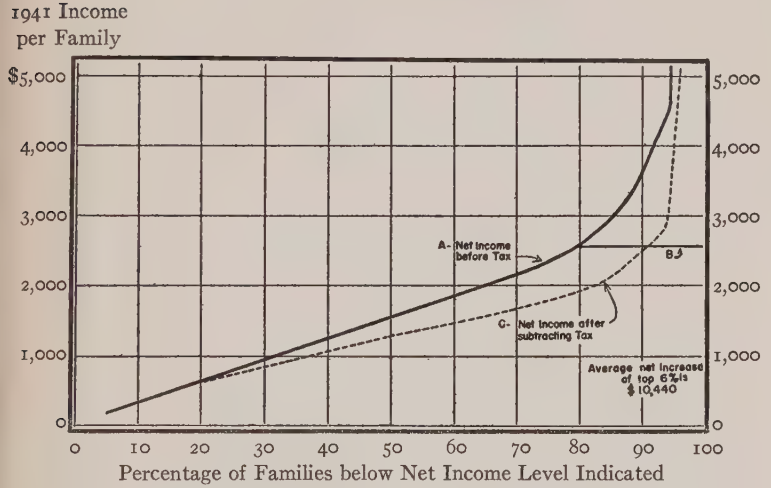
Mr. Hart: The rates would have to be something whopping. But go back to our one-hundred-and-forty-billion-dollar income that the citizens are going to have. If we're going to raise thirty-five or forty billion out of personal incomes, that represents, you see, somewhat over a quarter of the total income. Then one has to remember that the base of an income tax is always less than the total income, because we have to provide exemptions. They'll be lower than they are now, but we can't design a decent exemption system that won't take out a good fraction of the national income. Then we allow various deductions out of the income tax, which everybody has been putting into his blank this week and knows all about and which take some of the income out, too. So, we have to raise 25 per cent out of a base which is a good way short of 100 per cent.

That implies stiff rates; there is no use running away from the fact.

Mr. Simons: We can give some notion of what an adequate wage system and rate scale would be like, although it would take forever to make it out in detail.

Let's take the case of a family of four. I think that we could get something like the amount of additional revenue in question by levies which impose taxes of this magnitude. On a family of four, with an income of eleven hundred dollars, no tax; they would be exempted. On a family of four, with fifteen hundred dollars of income, the tax would amount to something like eighty dollars; at

WHERE CAN WE TAX IN ORDER TO RAISE 25 PER CENT OF TOTAL NATIONAL INCOME?*



* Courtesy Iowa State College Study of War Finance. Curve *A* represents the level of income for each group in the population. If we try to get the 25 per cent from the upper 20 per cent, leaving 80 per cent of the population untouched (see straight line *B* at about $2,600 and 80 per cent), this upper group is hit very sharply. Therefore, the line *C* has to be tilted to tax people further down the line. This curve will bring in as much revenue as the lopping-off process represented by line *B*.

three thousand, something like seven hundred and fifty, or one quarter; at five thousand to about a third of the income; and, at ten thousand, to about half of it—all of these are for the case of a family of four.

Mr. Jacoby: Those are interesting figures, Simons, and one conclusion that may be drawn from them is that the step-up in the amount of the tax payment is greatest in the lower brackets as compared with the higher.

Mr. Simons: That's where the income is.

Mr. Hart: When you say "low brackets," you're still talking about people at a pretty decent center of comfort. That is, these

fifteen-hundred-dollar to three-thousand-dollar family incomes don't represent wealth, but they don't represent acute poverty either—not by a long shot.

MR. JACOBY: How do these tax payments compare with those that are now in effect in Canada and Great Britain?

MR. SIMONS: These rates, I suppose we might as well admit, are perhaps a little bit higher than the present Canadian and English rates; but our present rates at these levels are, of course, enormously below the rates abroad.

MR. JACOBY: Even so, wouldn't it be true that, after the heavy taxes being proposed here, the number of dollars left over to people would be considerably more in these levels of income than were realized during the depression years?

MR. SIMONS: I think that that's true. As you pointed out at the beginning, we not only have moderate tax rates at the present time, relative to those of our Allies, but we have larger incomes to start with. We ought to be able to stand considerably higher rates than are imposed abroad.

MR. HART: Again, if you look back at the national situation, after paying taxes of this sort, the citizens would still have enough left to buy all the goods that are on the market at the price we're trying to impose and to make a very adequate post-war savings provision. You're not doing the public any kindness by leaving a lot of money to burn in their pockets. They'll be making illegitimate use of it, unfortunately, if they haven't any legitimate use for it.

MR. JACOBY: I believe that President Roosevelt said in his budget message that there would be only about five hundred dollars' worth of civilian goods per person left in the country in 1943 in any case, so there wouldn't be much point, as far as providing adequate living is concerned, in having any more income in people's pockets than that amount.

Mr. Hart: In short we can't produce goods out of nowhere, just by giving people more money than is good for them.

Mr. Simons: The current journalistic discussion implies that even the rates of the present income tax are pretty severe and involve hardships in many cases. Of course, these rates that we're talking about would be much more severe. We've had too much talk of that kind, because the implication is that there is some alternative way; that there is some means by which we might apportion the burdens less inequitably, less unfairly. *That* is simply not the case. We're going to bear these burdens in any case. It's a question of whether we bear them with reasonable fairness among people or not.

Mr. Jacoby: Apart from the higher rates that are necessary and the lower exemptions—and we agree that they must come—there is another problem, and that is when income taxes should be paid. Probably the politically hottest issue now around the country in the tax field is the question of paying taxes as you go—putting tax payments on a current basis.

Mr. Hart: The kind of thing Ruml's talking about.

Mr. Jacoby: I think that we ought to pay some attention to that. What do you think of the Ruml Plan?

Mr. Simons: I think that you know what I think of the Ruml Plan, and I think you realize that our views are very divergent on this question. For one thing, I, as I indicated at the beginning, am wholly opposed and bitterly opposed to any forgiving of accrued taxes and to any forgiving of 1942 levies.

Mr. Jacoby: Ruml, of course, doesn't like to talk about "tax forgiving." He speaks of "moving the tax clock ahead" and taxing people now on their 1943 incomes. It seems to me that his scheme on balance is a good one, providing the rates of tax on 1943 incomes are raised far above present levels.

Mr. Simons: Ruml seems to be worried about the fact that taxpayers are in debt to the government. Most economists are now worried about the fact that the government is so much indebted to the taxpayers.

Mr. Hart: And getting rapidly more so.

Mr. Simons: One of these views, I insist, is wrong. If we're going to forgive past taxes and accrued taxes, it certainly doesn't make sense to propose increasing taxes in the future. These are different and opposite lines of action.

Mr. Jacoby: Yes, but your only alternative, Simons, in getting on a current basis is to follow the Treasury proposal of paying two years' taxes during one year, 1943. Apart from the acute personal distress that that would cause in many cases, it seems to me that that course would serve as a temporary substitute for rate increases on 1943 income that must come later and ought, frankly, to be made now. Another objection to the Treasury plan is that it would certainly undermine voluntary War Bond buying.

Mr. Simons: We haven't time to discuss all those points certainly, but I must say I dissent on almost all of them as arguments. In the first place, the plan is much too kind to the large taxpayer. In the second place, I don't think that we ought to put the large taxpayer even ultimately on a wholly current basis. That means that the problem of current payment is essentially a problem of the small taxpayer of the income tax as a mass tax. It seems to me that the current proposal of the Ways and Means Subcommittee comes very close to the ideal solution of the problem, except for the fact that the rate of tax, this 20 per cent rate, is much too low, and the exemptions, of course, still too high.[6]

[6] On March 1, 1943, the House Ways and Means Subcommittee approved tentatively a plan to withhold 20 per cent of taxable income from the pay envelopes of the nation's wage- and salary-earners, starting on July 1, 1943. Chairman Jere Cooper (Democrat from Tennessee) announced the withholding decision with the following statement: "It has been tentatively agreed by the sub-

MR. HART: Gentlemen, if we don't look out, we'll be exemplifying just this thing I was complaining about—that the Ruml Plan is a red herring. That is, well, really what . . . .

MR. JACOBY: I object to that, Hart.

MR. HART: . . . . the Ruml Plan proves to me, Jacoby, is that hope springs eternal in the human breast. We're using the Ruml Plan as a device to try to fool ourselves into thinking that somehow or other we can cut ourselves a melon and get rid of our 1942 taxes; that by some sort of piece of bookkeeping magic we can make ourselves comfortable through this war period. We cheered when we took the civilian supplies off the market, but we're not willing to accept the idea that we can't have the money that goes with those supplies.

MR. JACOBY: Hart, may I just have this last word?

MR. SIMONS: I'm last.

MR. JACOBY: All right, the second-to-last. The discussion of pay-as-you-go plans is clarified if we remember that there are two points to consider—how much to pay and when to pay it. The Ruml Plan makes it clear that we should make payments now, but it doesn't explain the problem of how much. I would certainly agree with both of you, Hart and Simons, that the current payments must be at a much higher level. It is also psychologically advantageous to have the payments made on one year's income at high rates, because rates will have to go up, and, if you start from a low base, the job of getting them higher is that much bigger.

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committee to provide, beginning July 1, 1943, a withholding tax of 20 per cent—3 per cent on wages and salaries above exemptions of $624 like the victory tax, plus 17 per cent on wages and salaries above regular income tax exemptions of $500 for single and $1,200 for married persons plus $350 for each dependent, increased by 10 per cent to allow for deductions. This would apply to wages and salaries." It was estimated that this would put approximately 70 per cent of the nation's forty-four million federal income taxpayers on a current collection system.

Mr. Simons: I think just the opposite in terms of the political argument, Jacoby. If we could get double collections now—the regular 1942 collection plus this flat rate of 30 per cent—then with those collections for 1943 proving inadequate, as they probably would, it would be feasible, politically I think, to get the proper increase in the following year.

But if I could also try to have the last word on this, my point essentially is that the Ruml Plan politically has operated to create a situation in which we can't get the source collection which we need terrifically—we can't get to it without buying off a lobby which is essentially representative of the special interests of very large taxpayers.

Mr. Hart: In any case, gentlemen, I'm sure that we agree that we have got to get the taxpayer to part with a lot more money during 1943 than the 1942 taxes call for and that we can't allow that to be obscured. We have to have withholding taxes at the source.[7] We have to have substantial rates, and the amount of revenue has to be very much stepped up over what 1942 taxes call for. We're certainly all agreed on that.

Mr. Jacoby: Agreed, Hart; and one way I think of getting the higher tax rates that are called for is a political device—the device of promising post-war refunds of a part of the taxes. It seems to me that you can sell heavier taxes to the people of the country if you promise to refund a portion of them. Our Canadian friends

---

[7] There are numerous ways of collecting income taxes at the source, such as deducting them from wages and salaries, from dividends, etc. The Gallup poll issued on March 3, 1943, asked the question: "Would you like to pay your Federal income tax by having your employer deduct a regular amount from your wage or salary each time you are paid?" The issue was covered in two previous surveys, and it has had the following response:

	Per Cent		
	Yes	No	Undecided
February, 1942	45	45	10
June, 1942	50	43	7
February, 1943	76	19	5

have done that. They call it "forced saving." I don't like to call it that. I prefer to call it simply "refundable taxes."

MR. SIMONS: That's one of the faults of the Canadian system so far. The Canadians have a marvelous record, except for the fact that, by comparison with the English, they have overindulged this expedient of providing refunds.

MR. HART: Could I try to tie you down for a minute, Jacoby? Suppose that we can get adequate revenue. As I understand you, you'd just as soon not be making any promises of post-war refunds. But if the revenue would otherwise be inadequate, you're saying that we shouldn't turn up our noses at additional taxes with a refund tag fastened on.

MR. JACOBY: Precisely. I say that it is unreal to believe that we will get as high a current payment as we need without promising some part of it to be refunded.

MR. HART: But as economists we should tell them to get the taxes, and to promise refunds, perhaps, if they have to. Is that what it boils down to?

MR. JACOBY: Yes.

MR. SIMONS: I suppose so. I should like to submit the opinion, although it is an economist's opinion only, that this political trick won't work, that you won't get enough for your forced savings, or rather refundable taxes, in terms of higher tax rates to justify what you're going to lose in terms of the real net revenues of the tax.

MR. HART: There's another point that we have to look out for, too. One reason this forced-loan business, refundable tax, is getting so darned popular is again that it looks like a painless device. A lot of people are seeing the opportunity of getting medals pinned on themselves for saving what they were going to save anyhow and getting credits. Under a plan of this sort they could devise a scheme that will bring in twenty billion dollars and every bit of it stage money.

MR. JACOBY: Yes, but one point to consider is that under a refundable tax program you're less likely to disturb the voluntary bond-buying program. In other words, that you will have the cumulative effect of those two programs.

MR. SIMONS: We can agree, at least, that we're not interested in a refundable tax scheme for the purpose of stopping the post-war deflation and depression.

MR. JACOBY: Gentlemen, there are more points that we agree upon than we dispute.

None of us questions that the United States war effort has lagged badly on the financial front. We have reshaped our armed forces and have revised our factories into instruments of total war—but not our tax system. We should begin collecting taxes next July 1 at the rate of about sixty billions a year instead of thirty billions. Taxes on personal incomes will have to bear the brunt. They should dip deeper into lower incomes. They should be collected currently at the source. True, the burden will be heavy, but the matter can't be put much better than it was phrased the other day by the Canadian Minister of Finance when he said this: "Financial measures are one of the means through which each person has his share in this war. Taxes and loans are the weapons which the people, through their elected representatives and the free methods of democracy, have fashioned for their own use and common purpose."

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We attach a brief statement on "Adequate War Taxation," which has been agreed upon by a large number of economists working in the fields of public finance and money. The statement included here, together with a detailed brief of our facts and reasoning and a technical, statistical, and historical appendix, will be presented as an economists' program to the House of Representatives' Ways and Means Committee at the first opportunity, and a list of the signers will then be published.

It should be noted that the forty-five-billion-dollar minimum tax goal mentioned in this statement is as of early 1943. The same logic on which it is based points to a minimum goal of fifty-five or sixty billion dollars for the fiscal year running from July 1, 1943, to June 30, 1944.

Henry C. Simons
Neil H. Jacoby
Albert G. Hart

RECOMMENDATIONS FOR ADEQUATE WAR TAXATION

Efficient conduct of the war demands quick action to round out the anti-inflation program on the side of public finance. The sides of inflation control which have so far been the focus of popular attention—price control in particular—are means for dealing with the results of inflation. We shall obviously have far less difficulty with the results of inflation if we control its cause, which lies in the huge excess of federal expenditures over federal revenues. In fact, an attack on the financial roots of inflation is essential to keep our other inflation controls from collapsing.

The undersigned economists are gravely perturbed by the lack of adequate action in this field during the critical first year of war. We are much encouraged by recent Treasury pronouncements looking toward the enactment early in 1943 of substantial additional taxes. But meanwhile it must be emphasized that the taxes payable to the government in the fiscal year 1942–43, under the Revenue Act of 1942, do not exceed what the Treasury proposed *as a minimum* in March, 1942—at a time when expenditure estimates for the fiscal year 1942–43 were $20 or $25 billion below present estimates.

Under present legislation an increase of some $60 billion in the public debt is scheduled for the current fiscal year 1942–43, and for 1943–44 the increase would be much larger. Even if this increase in the public debt did not involve any threat of wartime inflation, it would add seriously to the adjustment difficulties of the post-war period. But, over and above this post-war danger, there is clearly a wartime danger. A good half of the debt increase must be financed by borrowing at banks, despite increasing sales of War Savings Bonds and successful drives to sell bonds to the nonbanking public, like that of December, 1942. It is well known that all the great inflations of modern times have issued from such use of banking financing.

The great shortcoming of the anti-inflation campaign so far lies in the inadequacy of the tax program and the failure to tap the possibilities of compulsory lending. This fact has been somewhat pushed into the background in recent press discussions, in which the important question *how* to tax has overshadowed the still more important questions *how much* to tax and *when*. Our recommendations, which are listed below, deal with all three questions. Since the inflationary pressure arises from government spending, it is essential to keep that pressure down by maximum economy consistent with the war effort. Subsidies in agriculture and elsewhere should be withdrawn unless it is clearly shown that they contribute to increasing production or that they are essential to hold down living costs; other nonwar expenditures of state and local governments as well as the federal government should be carefully reviewed; and war expendi-

tures themselves should be held down by vigilance in letting and renegotiating war contracts. But the largest economies compatible with an all-out war effort and with the maintenance of decent standards in education and public services can make only a minor contribution to the fight against inflation.

It is feared in some quarters that heavier taxation of the sort we recommend will involve the country in needless hardships. This fear is groundless. It would be nearer the truth to say that *failure to levy* much heavier taxes will have this effect. Irrespective of taxes, the war itself necessitates a reduction of living standards for the duration by reducing civilian supplies of tires, sugar, gasoline, fuel, fats, meat, clothing, etc. Failure to levy adequate taxes cannot conjure goods out of empty air to relieve these shortages. But such failure will add needless additional wartime hardships to those which are unavoidable. Without adequate taxes, the pressure of excess spending power will "insure the disregard of law"(as the Office of Price Administration has officially stated) and break down our other inflation controls. Far from enabling Americans to be better fed, housed, warmed, and clothed, leaving excess spending power free to break down our defenses against inflation will reduce civilian supplies by encouraging hoarding of commodities, stimulating wasteful consumption, and bringing about a running battle over wage rates and farm prices which is bound to hinder production. Besides reducing supplies, furthermore, such a development will increase "black market" activity, making it much harder to share our scarce supplies fairly among consumers. And all this says nothing about the social disruption that always goes with inflation.

The choice is not between avoiding sacrifices or making sacrifices through taxation. It is between sharing sacrifices among the citizens on an agreed rule, through taxation supplemented by rationing of key items, or sharing them in a totally planless fashion through inflation. Needless to say, wartime privations cannot be made painless for the citizens by sharing them out through the tax mechanism. But they will be still more painful if we lack the courage to adopt an adequate system of war taxation.

Listed immediately below are our recommendations:

PROGRAM FOR ADEQUATE WAR TAXATION TO ROUND OUT THE ANTI-INFLATION PROGRAM

1. Minimum Revenue Goals

The federal revenue system should be adjusted immediately to yield revenue at an annual rate of at least $45 billion, effective not later than April 1, 1943.

2. Revenue Flexibility

To allow for possible underestimation of the inflationary pressure ex-

isting in early 1943, and for the nearly certain increase of inflationary pressure during 1943, provision should be made for increasing tax revenue on short notice by as much as $10 billion above the $45 billion goal mentioned above.

3. Sources of Revenue

The great bulk of the additional revenue should be raised by increased taxation of net incomes of individuals and families; and most of the increase must of necessity come from incomes between $1,500 and $10,000, since this is where most of the national income lies.

4. Methods of Expanding Income Taxation

To make increased levies on personal incomes effective in 1943, we recommend:

A. Withholding at the source of income enough to settle the bulk of tax liabilities on salaries, wages, dividends, and any other types of income for which taxation at the source proves practicable

B. Adjusting withholding schedules and income-tax rates so that the great majority of taxpayers will have paid their 1943 income taxes by the end of the calendar year

C. Reducing exemptions enough to make the tax base in excess of exemptions (i.e., the aggregate of "surtax net income") embrace at least half the national income

D. Reducing tax avoidance by applying wartime increases in rates to interest which is now tax free, by eliminating the inequities associated with separate returns by husband and wife, and by closing other loopholes

E. Reducing tax evasion by a campaign to get fuller reporting of income, particularly from farmers and other self-employed persons

5. Use of Compulsory Loans

We recommend substantial use of refundable levies (compulsory loans) as a means of taking excess spending power off the market during the war with a minimum adverse effect on incentives to work, and as a means of providing a backlog of post-war spending power without the danger that it will simply burn itself up in a burst of ill-timed spending at the return of peace. But not more than $2 to $5 billion of refundable levies should be counted as part of the minimum goal of $45 billion.

*

ALL OF THESE RECOMMENDATIONS ARE UNANIMOUSLY INDORSED BY A GROUP OF ECONOMISTS WHOSE NAMES AND PROFESSIONAL CONNECTIONS WILL BE PUBLISHED AFTER THESE MATERIALS HAVE BEEN SUBMITTED TO THE HOUSE WAYS AND MEANS COMMITTEE

TEST YOUR *Reader's Quotient*

This test will enable you to judge your grasp of the ROUND TABLE *discussion. Turn to page 29 to check your answers.*

1. How much is the government going to spend in the year beginning July 1, 1943?
2. How much taxes will be collected at present rates in the year beginning July 1, 1943?
3. About how great will the national income be in the year beginning July 1, 1943?
4. About how great is the value of the supply of civilian goods in the year beginning July 1, 1943?
5. How many dollars will be coming into the average person's pocket for every dollar's worth of goods for purchase at current price levels?
6. About what part of government expenditures in World War I and World War II were and are paid out of tax revenue?
7. What part of Great Britain's war budget is paid by taxation?
8. Mr. Simons recommends what tax rate to raise how many additional billions?
9. For a sales tax to raise an additional thirty billion dollars in tax revenue, at what rate would it have to be fixed?
10. What is the estimated dollar value of civilian goods for each person in 1943?

More on This Topic

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Fargo, N.D.	WDAY	970	Omaha, Neb.	WOW	590
Fort Wayne, Ind.	WOWO	1190	Rochester, Minn.	KROC	1340
Hattiesburg, Miss.	WFOR	1400	St. Cloud, Minn.	KFAM	1450
Hibbing, Minn.	WMFG	1240	Shreveport, La.	KTBS	1480
Houston, Texas	KPRC	950	Sioux Falls, S.D.	KSOO	1140
Indianapolis, Ind.	WIRE	1430	Springfield, Mo.	KGBX	1260
Kansas City, Mo.	WDAF	610	Terre Haute, Ind.	WBOW	1230
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Bozeman, Mont.	KRBM	1450	Salt Lake City, Utah	KDYL	1320
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Denver, Colo.	KOA	850	Twin Falls, Ida.	KTFI	1270
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11:00 A.M. PACIFIC WAR TIME

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Los Angeles, Cal.	KFI	640	San Francisco, Cal.	KPO	680
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ANSWERS TO *R.Q.* TEST ON PAGE 25

1. Over 100 billion dollars.
2. About 30–35 billion dollars.
3. About 140 billion dollars.
4. About 70 billion dollars.
5. Two dollars.
6. One-third of the expenditures.
7. One-half of Britain's budget.
8. A tax rate of about 50 per cent to raise 25–35 billions more per year.
9. From 30 to 40 per cent.
10. About $500.

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MAYNARD KRUEGER, Department of Economics, University of Chicago

and

THE ROVING REPORTER

•

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